



# Risk Management Policy

**Atlas Arteria Limited**  
**Atlas Arteria International Limited**

None of the entities noted in this document is an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia). The obligations of these entities do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL). MBL does not guarantee or otherwise provide assurance in respect of the obligations of these entities.

# Risk Management Policy

## Introduction

This policy applies to the directors on the boards of Atlas Arteria (**ALX**) and to employees, contractors and consultants of ALX and Macquarie Group Limited and its related entities who serve as officers of or provide management and advisory services to ALX (**ALX Staff**).

For the purposes of this document:

- **ALX** means Atlas Arteria Limited ACN 141 075 201 and Atlas Arteria International Limited Registration number 43828 and their controlled entities
- **ALX Manager** means Macquarie Fund Advisers Pty Limited (**MFA**) ACN 127 735 960, manager of Atlas Arteria Limited and adviser to Atlas Arteria International Limited
- **Macquarie** means Macquarie Group Limited ACN 122 169 279 and its subsidiaries and any fund or other vehicle that is managed by Macquarie Group Limited or subsidiary.

## Policy Statement

Risk is an inherent part of ALX's business and management of that risk is therefore critical to ALX's continuing profitability and financial strength. This policy outlines how ALX identifies, monitors and mitigates its risks.

## Risk Management Overview

ALX has two key mechanisms to assist with the identification and management of its key risks, the Risk Appetite Statement and Risk Management Framework.

### Risk Appetite Statement

The purpose of a Risk Appetite Statement is to describe:

- The nature and amount of risk that ALX is willing to accept in pursuit of an appropriate and resilient long-term return on capital
- The risks ALX is not willing to accept
- The limits and policies to ensure that the risks accepted are consistent with the risk appetite
- The processes established to:
  - ensure that our risk tolerances are set at an appropriate level
  - monitor compliance with our risk tolerances, limits and policies, and the

steps we take if / when these thresholds are breached

- The timing and process for review of the risk limits and policies

The Risk Appetite Statement is reviewed at least annually and approved by the Board.

### Risk Management Framework

ALX has its own risk management framework and policies that reflect the investment, credit, liquidity, operational and legal risks specifically associated with its operations and investments. A key part of this framework is clear identification of risk roles and responsibilities represented by 'three lines of defence'.

The primary responsibility for risk management lies at the business level which forms the **first line** of defence. The ALX CEO and ALX staff are responsible for identifying risks and confirming that risks are managed appropriately.

The Risk Management Group (RMG) within Macquarie forms the **second line** of defence and helps develop an appropriate framework (including limits) in which the business must operate. There is also active oversight and monitoring of compliance with this framework.

The **third line** of defence, which includes Macquarie's internal audit division, independently reviews and challenges the risk management controls, processes and systems. Importantly, in the ALX context, these reviews cover controls, processes and systems at the ALX and ALX Manager level but do not include controls at the underlying portfolio assets.

Further, the ALX Risk Management Framework has been divided into three distinct areas to provide greater clarity of ownership, roles and responsibilities: Strategic Risks, Fund Operations and Asset Operations. Within each of these risk areas there is clear "line of sight" between the underlying risks (including rating), risk ownership, and reporting to monitor these risk areas.

The Audit and Risk Committees (ARCs) have ownership of the Fund Operations and Asset Operations risks while Boards oversee the Strategic Risks.

### Board Oversight

The ATLAX and ATLIX Boards are responsible for the overall corporate governance of ALX and its controlled entities, including:

- Reviewing ALX's Strategic Risks;

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- Approving the risk management policy and risk appetite; and
- Overseeing the Risk Management Framework.

The Audit and Risk Committees (ARCs) assist by overseeing the design and implementation of and the monitoring of compliance with the risk framework. They also have ownership of both Fund Operations and Asset Operations risk areas.

The ALX CEO has delegated authority for ensuring that the Risk Management Framework and internal controls are sound and effective.

## Senior Management Oversight

ALX Senior Management (being the Chief Executive Officer, Chief Financial Officer, Legal Manager, Risk Manager and Finance Manager) review and approve:

- Key aspects of the Risk Management Framework;
- Delegation of approvals required under the Risk Management Framework;
- Risk management reporting including operational issues and operational losses;
- Access to rectify operational control weaknesses and breakdowns including fraud;
- Due diligence conducted for appointment and ongoing monitoring of outsourced arrangements; and
- Results of risk self assessment reviews and workshops.

## Operations Management

All ALX Staff ensure activities are conducted within the parameters set by the risk appetite, policies and procedures and in accordance with the Boards' directions.

This is achieved by:

- Documented policies and procedures and compliance plans;
- Staff training in respect of the policies and procedures to be followed;
- Quarterly review of compliance with underlying policies and procedures; and

- Appropriate reporting of operational issues to senior management and the boards.

## Asset Risk Management

Each asset maintains its own risk management framework and supporting infrastructure to manage its own risk.

While ALX's ability to control or influence such a framework and infrastructure differs based on ALX's level of ownership/control, it is ALX's policy to confirm that each asset has an appropriate risk management framework in place to assist the asset to effectively manage its risks.

## Board, Committees and Breach Reporting

To assist the ATLAX and ATLIX Boards and ARCs in monitoring and reviewing the effectiveness of the Risk Management Framework and compliance with key risk management policies, the Risk Manager will provide a semi-annual risk management update to the ARCs.

Breaches and operational risk incidents arising within the operations of ALX are reported to the Risk Manager as they occur and to the CEO/CFO and RMG on a monthly basis. Significant breaches or incidents are reported to the ALX CEO and ARCs as required.

## Regulatory Breach Reporting

As the holder of an Australian financial service licence, MFA is required to identify breaches or likely breaches of the conditions of its licence, give proper consideration whether the breach is significant and, where required, notify ASIC within five business days of becoming aware of the breach or likely breach.

Further, the Australian Securities Exchange (ASX) Operating Rules require that ALX notify the ASX immediately in writing if it becomes aware that it has breached any of the ASX Operating Rules and that breach is significant.

## Responsibility

The ALX CEO will have primary responsibility for ensuring compliance by the ALX Staff with this policy.

The ALX Risk Manager is responsible for monitoring compliance with this policy and ensuring that ALX Staff understand its requirements.

Any breaches of this policy should be reported in the first instance to the ALX Risk Manager who will

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escalate to the ALX Boards after consultation with the ALX CEO (who will determine the appropriate method and timing for escalation).

## Review

On an annual basis this policy will be reviewed and if appropriate updated and submitted to the ALX ARCs for approval.

## Contacts

The ALX Risk Manager and ALX Legal Manager should be contacted for any assistance or guidance in respect of the matters covered by this policy.

# Appendix A - ALX Risk Appetite Statement

## Introduction

The risk appetite statement applies to the directors on the boards of Atlas Arteria (**ALX**) and to employees, contractors and consultants of Macquarie Group Limited and its related entities who serve as officers of, or provide management and advisory services to, ALX (**ALX Staff**).

For the purposes of this document:

- **ALX** means Atlas Arteria Limited ACN 141 075 201 (**ATLAX**) and Atlas Arteria International Limited Registration No. 43828 (**ATLIX**) and their controlled entities
- **ALX Manager** means Macquarie Fund Advisers Pty Limited (MFA) ACN 127 735 960, manager of Atlas Arteria Limited and adviser to Atlas Arteria International Limited
- **Macquarie** means Macquarie Group Limited ACN 122 169 279 and its subsidiaries.

## Purpose

The purpose of this Risk Appetite Statement is to describe:

- The nature and amount of risk that ALX will accept in its strategy to deliver an appropriate and resilient long-term return on capital for security holders;
- The risks ALX is not willing to accept;
- The limits and policies to ensure that the risks accepted are consistent with the risk appetite;
- The processes established to:
  - ensure that our risk tolerances are set at an appropriate level
  - monitor compliance with our risk tolerances, limits and policies, and the steps we take if/when these thresholds are breached; and
- The timing and process for review of the risk limits and policies

The Risk Appetite Statement is reviewed at least annually and approved by the Board.

## Profile and strategy

ALX is a global infrastructure operator and developer listed on the Australian Securities Exchange (Top 100) with market capitalisation of over A\$4.03bn as at 31 March 2018.

ALX currently offers security holders exposure to an international portfolio of toll road assets:

- Primary exposure is to the European economy and traffic levels through ALX's interest in Autoroutes Paris-Rhin-Rhône (**APRR**) in eastern France;
- Secondary exposure is to the US economy through ALX's interest in the Dulles Greenway in northern Virginia.

ALX offers security holders a total return including distributions and capital appreciation. A substantial proportion of asset-level cash flow is retained in the respective portfolio business, via capital expenditure and debt reduction, to improve the value of ALX's equity investment.

ALX's strategy is to deliver growing distributions and enhance the value of our portfolio for security holders. We seek to invest in global infrastructure assets that generate stable cash flows and offer resilient long-term performance through economic cycles.

Key actions to deliver our strategy include:

- Active management of portfolio assets to deliver improved operational performance;
- Efficient and disciplined capital and portfolio management
- Refinancing of project debt as suitable opportunities emerge over the medium term;
- Delivering and growing distributions from portfolio assets; and
- Identifying and accessing accretive opportunities either from within or complementary to the existing portfolio.

## Guiding principles

Risk is an inherent part of ALX's business and management of that risk is therefore critical to ALX's continuing profitability and financial strength.

Accordingly, ALX has adopted the following guiding principles for risk:

- ALX has appetite only for risks which align with its strategy;
- Risks must be comprehensively understood before being accepted;

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- ALX has appetite only for risks where the return (financial or otherwise) is considered proportionate to the risk;
- Risks must be consistent with ALX's risk limits and policies;
- ALX seeks to preserve its ability to pay dividends and protect security holder value;
- ALX must comply with all laws and regulations;
- ALX has no appetite for high-impact events, such as workplace health and safety (WHS) incidents, environmental incidents and regulatory fines; and
- ALX seeks to invest in asset companies that regard environmental and social issues as a high priority and aim to engage responsibly with the community;
- ALX Board approval and oversight of the financial strategy and plan;
- Formal relationship management plan for key institutional investors and financial institutions;
- Having no long-term debt at the ATLAX or ATLIX levels (excluding intercompany debt);
- Holding ALX's interests in toll roads via holding companies, in separate project vehicle legal entities. The debt borrowed by these project vehicles is non recourse to ALX; and
- Assessment of the financial risk and control framework of each potential investment during due diligence.

In addition, there is no appetite for ALX investments being unable to manage their capital. Accordingly, there is active financial oversight of these investments by the respective ALX nominee directors, including:

## Specific appetite for material risks

### 1. Liquidity

ALX should be able to meet all of its liquidity obligations during a 12 month period of liquidity stress and liquidity, in the form of cash, liquid assets or access to finance, needs to be sufficient to cover a twelve month stress scenario.

We define a stress scenario as a 12 month period where ALX receives no distributions from its portfolio companies.

### 2. Country Risk

ALX only has an appetite to invest in assets located within Organisation for Economic Cooperation and Development (OECD) countries or countries that exhibit equivalent attributes.

The suitability of the country in which a potential investment resides is considered as part of the wider investment proposal, taking into account factors such as sovereign profile, economic and political risk.

### 3. Financial Risk

ALX must have an appropriate capital structure. It will not have excessive gearing or concentrated debt maturity risk.

This will be achieved through:

- Active management of fund financial performance by the ALX CEO and CFO;

- Suitability of the financial control framework;
- Degree of leverage;
- Debt covenant monitoring; and
- Financial planning.

ALX is fully exposed to, and accepts, the foreign exchange risk resulting from its investments in assets outside Australia. Sensitivity analysis of the impacts to both asset valuations and cash flows from movements in foreign exchange rates are monitored by the Boards.

### 4. Compliance, Legal and Reputation Risk

ALX seeks to maintain a reputation of high integrity and the confidence of all our stakeholders and must comply with all laws and regulations. Further, we must behave in a way that maintains the trust of investors, clients, regulators or the public.

ALX has no appetite for:

- bribery and corruption, including the use of facilitation payments;
- transactions whose objective is to mislead or deceive or which does not comply with applicable laws;
- conflicts which cannot be appropriately managed and which do not reflect our

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commitment to our clients;

- information that is potentially price sensitive or confidential to be improperly communicated (including inadvertently); and
- entering into binding agreements without prior approvals from relevant stakeholders.

We seek to ensure that:

- Interactions with our regulators are consistent and co-ordinated, and that we continue to develop and maintain strong working relationships;
- Complaints from our clients and customers are escalated promptly and handled in an appropriate manner; and
- We honour without reservation our obligation to respect and protect the privacy of the personal information of individuals with whom we deal.

## 5. Tax Risk

ALX seeks to meet its tax obligations in every jurisdiction in which it operates while managing its business efficiently.

ALX will not pursue tax strategies or transactions that are not considered defensible in court. Strategies or transactions must be structured so that the appropriate amount of tax is being paid, complying with all relevant revenue laws.

Further, independent taxation advice and due diligence will be conducted for all material transactions to ensure that tax issues are properly recognised (and managed) as early as possible.

ALX has a formal tax control framework to ensure that tax risk is managed appropriately and that due regard is given to ALX's reputation.

## 6. Operational Risk

Our appetite for operational risk recognises that it is a necessary part of doing business and that it is to be managed within the ALX operational risk framework.

ALX has no appetite for activities which carry an unacceptable level of operational risk, in particular:

- Fraud. Any action that erodes that trust is a fundamental threat to our business and our reputation, and will not be tolerated;

- Unauthorised payments due to a failure of controls;
- Misappropriation or misuse of ALX funds;
- Regulatory breaches or damage to our reputation due to inadequate access controls over customer or sensitive information; and
- Owning an investment that exposes the environment to unacceptable risks or that exposes people to health and safety risks that cannot be effectively managed. (Refer section 7 and 8 for more detail on these risks).

ALX also seeks to ensure:

- that there is no unauthorised or inappropriate use of technology at ALX;
- that security is preserved and critical business processes are resilient to disruptions;
- the integrity, identity and credentials of ALX staff; and
- the confidentiality, integrity and availability of investor information; and
- that the assets in which we invest in have appropriate risk management frameworks in place.

## 7. Workplace Health and Safety

ALX will invest in asset companies that regard WHS responsibilities as a high priority and are committed to providing a safe place of work, free of occupational injuries, illnesses, and which promote a "zero harm" culture.

ALX nominee directors are expected to comply with their legal obligations and to support a governance framework which allows asset companies to pursue:

- A culture that that puts health and safety first;
- Compliance with all relevant WHS legal obligations;
- Provision of visible leadership, adequate resources and ensuring that workplace standards are maintained;

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- A disciplined approach to the identification and management of WHS risks;
- Conducting business in a way that protects, or enhances, community safety;
- Measurement and continual improvement of WHS performance;
- Senior Management and Board oversight, including reporting; and
- Effective, pro-active injury management processes to support employee rehabilitation.

## 8. Environmental and Social Responsibility

ALX will invest in asset companies that regard environmental and social issues (including modern slavery risk) as a high priority and are committed to complying with all regulations and engaging responsibly with the community.

Accordingly, the following apply to all ALX investments:

- Potential investments will be screened for environmental and social risks;
- Environmental and social risks will be included as part of the independent due diligence performed on all potential investments;
- The results of environmental and social due diligence are to be included in the investment proposal being presented to the ALX Board for consideration;
- A climate change assessment will be conducted for all potential investments;
- Each investment is to maintain its own environmental and social risk management framework, commensurate with its risk profile;
- The environmental performance of each investment will be conducted for all potential investments;
- Environmental performance of the ALX investments is to be reported to the Audit and Risk Committee quarterly and presented annually to the ALX Boards; and
- Major environmental and social incidents are to be reported to the ALX Boards within 48 hours of occurrence.

## 9. Diversity and Inclusion

ALX believes that diversity is fundamental to its success. It will ensure that the business remains innovative, sustainable and continues to meet the evolving needs of its staff and stakeholders.

ALX is committed to promoting:

- an inclusive environment that places value on a broad range of experiences, skills and views; and
- a workforce that is reflective of the communities in which we operate.

Differences arising through characteristics such as gender, age, ethnicity, cultural background, physical ability, sexual orientation, gender identity and intersex status are not considered a barrier to success but rather are leveraged to achieve our goals.

## 10. Discrimination and Harassment

ALX does not tolerate any form of discrimination, harassment or victimisation.

While all ALX staff must comply with the law, mere compliance is not an adequate measure of whether decisions and actions are consistent with, and in the spirit of, what we stand for. As a result, there may be forms of workplace behaviour which ALX regards as being inappropriate, including sexual and other harassment.

Any instances of discrimination and/or harassment arising within the operations of ALX are reported to the Risk Manager and escalated to the CEO and ALX Boards.

### Responsibility

The ALX CEO will have primary responsibility for ensuring compliance with the ALX risk appetite.

The ALX Risk Manager is responsible for monitoring compliance with the risk appetite and ensuring that ALX staff understand its requirements.

Any breaches of this policy should be reported in the first instance to the ALX Risk Manager who will escalate to the ALX Boards after consultation with the ALX CEO (who will determine the appropriate method and timing for escalation)..

### Review

On an annual basis the risk appetite statement will be reviewed and if appropriate updated and submitted to the ALX Boards for approval.

# Appendix A - ALX Risk Appetite Statement

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## Contacts

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